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EX PARTE OR LATE FILED

January 15, 1999

Ex Parte

Ms. Magalie R. Salas
Secretary
Federal Communication Commission
Room TW-A325,The Portals
445 Twelfth Street
Washington, D.C. 20554

Re: CC Docket No. 98-81, In the Matter of 1998 Biennial Regulatory Review—Review of Accounting and Cost Allocation Requirements

CC Docket No. 98-137, In the Matter of 1998 Biennial Review—Review of Depreciation Requirements for Incumbent Local Exchange Carriers

CC Docket No. 98-177, In the Matter of 1998 Biennial Regulatory Review—Petition for Section 11 Biennial Review filed by SBC Communications Inc., Southwestern Bell Telephone Company, Pacific Bell and Nevada Bell

ASD Docket No. 98-97, In the Matter of United States Telephone Association Petition for Rulemaking-1998 Biennial Regulatory Review

CC Docket No. 96-150, In the Matter of the Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996

Dear Ms. Salas:

In accordance with the Commission's rules, please be advised that on January 14, 1999, Mr. Pat Doherty, Ms. Marla Martin, Mr. John Schrotenboer and the undersigned, representing SBC Communications Inc. (SBC) met with Mr. Yog Varma, Deputy Chief of the Common Carrier Bureau and Mr. Tim Peterson, Deputy Division Chief, Accounting Safeguards Division. The purpose of the meeting was to discuss accounting simplification. A summary of the discussion is outlined in the attached.

(expar98-81jan1499.doc)

An original and one copy of this letter and the attachments are being submitted. Acknowledgement and date of receipt of this transmittal are requested. A duplicate transmittal letter is attached for this purpose.

Please include this letter in the record of these proceedings in accordance with Section 1.1206(a)(2) of the Commission's Rules.

If you have any questions on this, please do not hesitate to contact Ms. Jeannie Fry at 202-326-8894.

Sincerely,

B Jeannie Fry

Attachments

EX PARTE

Biennial Review – Accounting/CAM Simplification
January 15, 1999
SBC Communications Inc.

- **SBC and the LEC industry have proposed many streamlining modifications**
  - Proposals are intended to streamline and simplify and not eliminate overall Commission oversight (FCC or state).
  - Incentive/relaxed cost regulation should permit <u>some simplification</u> of past rules established for rate of return rate cases.
  - SBC solicits the Staff and Commission to entertain simpler ways to provide needed information. The costs of complying with rules should always be weighed against the value generated by the resulting information.
  - The following recommendations do not preclude the provision of necessary reporting.

<u>Accounting Rules</u>

<u>Immediate</u>

- **Short term Part 32 recommendations that are achievable in 1999 include:**
  - Allow Class B accounting/reporting
  - Eliminate the Expense Matrix
  - Allow carrier flexibility in depreciation rates
  - Eliminate property record plan filings
  - Simplify affiliate rules in reducing the reliance on fair market value studies-
    Material transactions only /studies done on a rotational basis

<u>Short-Term</u>

- **Other Part 32 recommendations should be completed in the next 2 or 3 years, such as:**
  - Allow LECs to establish an expense limit for network plant
  - Allow the aggregation of property record definitions to reduce the magnitude of records SBC maintains today (2.7 million for COE alone).
  - Eliminate the fair market value test against FDC cost.
    - Utilize only FDC in those situations.
  - Moderate the limitations on prevailing price usage i.e. 50% benchmark of outside sales

<u>Long-Term</u>

- **Long term recommendation is to utilize Generally Accepted Accounting Principles in lieu of Part 32.**
  - SBC recognizes that a transition to GAAP would be a long term objective and that Part 32 would continue to be needed for some period of time.
  - The above transition is also embodied in the November 10, 1998 Andersen report, Attachment 1.

- **The immediate and short-term steps will not eliminate current Commission needs.**
  - Part 36 Separations is tailored to accommodate Class B accounting.
  - Universal Service information currently is mandated upon forward looking costs which are independently calculated from Class A account information.
  - Part 64 CAM systems are today structured by cost pools and would continue to function under Class B accounting.
  - The limited information needs for Pole Attachment rate calculations can easily be maintained in the carrier's subaccounts as is done by smaller telephone companies.
  - Overall pricing for interstate rates is predicated on price cap formulae. These are driven by inflation and productivity factors and not rate case revenue requirement showings.
  - Interstate conventions such as the Lower Formula Adjustment (LFAM) and Exogenous changes can continue to be calculated if necessary.
  - Productivity Factors can continue to be calculated.
  - ARMIS reports can be modified to report Class B information.
  - Carrier determination of depreciation rates will not hamper Commission processes. LFAM calculations utilizing modified depreciation rates would bear the burden of demonstrating the reasonableness of depreciation rates other than prescribed.

CAM Rules

- **CAM recommendations are targeted toward procedural simplification.**
  - Specific recommendations are detailed in nature and do not harm the intended safeguard concepts of Part 64.
- **Major recommendations follow.**
  - Eliminate nonregulated reporting of incidental interlata services which are tariff regulated services very small in significance.
  - Schedule CAM audits every two years covering 2 year segments instead of auditing every year.
  - Use actual usage data for allocating Common Network Investment instead of a complicated 3 year forecasting formula.
  - Modify the $1 million error threshold which requires a reporting adjustment(which in the case of Southwestern Bell Telephone represents less than 0.2% of the nonregulated revenue). This threshold should be determined on a GAAP type materiality benchmark e.g. 1% of nonregulated revenues.
  - File CAM updates on an annual basis as the Telecommunications Act specifies instead of multiple filings throughout the year as nonregulated products or the associated allocation techniques change.
  - Eliminate the Account Matrix chart in Section II of the CAM which provides the reader with information of limited benefit.
  - Utilize Class B accounting. Cost pool information is generally in far greater detail than Class A Part 32 accounts.
  - Reduce affiliate information in Section IV to include only affiliates which have more than $10 million in assets.

1997
Texas
Revenues

	$M	Composite Percentage
Nonregulated	466	7.62
Public	15	0.25
Business Local	1331	21.77
Access Special	317	5.18
Long Distance	328	5.36
Subtotal	2457	40.19
Residence Local	1669	27.30
Access End User	466	7.62
Access Switched	485	7.93
Access State	848	13.87
Miscellaneous Revenues	179	2.93
Subtotal	3647	59.65
Total Revenues	6104	99.84